

Message Text

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67

ACTION NEA-09

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-02

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EO 11652: N/A

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SUBJECT: COMPLICATIONS ON JOINT VENTURE BANKING FRONT

REF: CAIRO 2918

1. GUNTHER NEUBERT, CHASE MANHATTAN VP IN CHARGE OF EFFORTS TO ESTABLISH JOINT VENTURE CHASE NATIONAL BANK OF EGYPT, CALLED ON CHARGE APR 7 TO REPORT ON CURRENT STATUS OF PROJECT AND MAJOR PROBLEM HE IS NOW FACING.

2. NEUBERT DEPARTS FOR BEIRUT APR 8 TO MEET WITH CHASE MANHATTAN REP FOR ME AND AFRICA, DEREK RICHARDSON. HE INTENDS TO ADVISE LATTER THAT HE CANNOT JUSTIFY TRANSFER AT THIS TIME OF FUNDS (\$10 MILLION) WHICH WILL CONSTITUTE CONTRIBUTION TO CAPITAL OF CHASE NATIONAL. RATIONALE IS FACT THAT GOE IS CONSIDERING POSSIBILITY OF CHANGING LAW ON FOREIGN INVESTMENTS (LAW 43) TO PERMIT CAPITAL TO ENTER COUNTRY AT PARALLEL MARKET RATE (LE1.00 EQUALS \$1.70) VICE OFFICIAL RATE (L.E.1.00 EQUALS \$2.56) AS IS NOW CASE (REFTEL). IF INVESTMENT IS MADE BEFORE CHANGE, RESULT WOULD BE LOSS OF ABOUT 40 PER CENT IN DOLLAR TERMS.

3. IN CONVERSATIONS WITH MINECON COOP AMIN, NEUBERT SAYS HE

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HAS BEEN ASSURED THAT CHANGE WILL TAKE PLACE IN "A FEW WEEKS",

BUT SINCE REVISION OF LAW 43 IS REQUIRED HE TENDS TO DOUBT IT WILL BE POSSIBLE IN THAT TIME FRAME. AT ANY RATE, NEUBERT WILL RECOMMEND THAT CHASE HOLD OFF TEMPORARILY ON MAKING TRANSFER.

4. THIS MOVE WILL PLACE ONUS FOR DELAYS IN OPENING CHASE NATIONAL ON THE US SIDE FOR FIRST TIME, SINCE REMAINING STEPS IN APPROVAL PROCEDURE (CENTRAL BANK CERTIFICATION, PRESIDENTIAL APPROVAL) ARE CONTINGENT UPON ESTABLISHMENT OF CAPITAL. IT IS STILL NOT CLEAR THAT TRANSFER WOULD ACTUALLY HAVE EFFECT ON REMOVING EXISTING OBSTACLES, SINCE THERE ARE STILL SOME ITEMS IN BASIC AGREEMENT THAT HAVE NOT BE SETTLED, AND CONTINUING DEBATES WITHIN GOE ON ROLES AND FUNCTIONS OF BANKING SECTOR INDICATE THAT BASIC PHILOSOPHY IS NOT YET CRYSTALLIZED, BUT ANOTHER HURDLE HAS NOW BEEN ERECTED IN PATH OF OPENING FIRST JOINT-VENTURE BANK.

5. COMMENT: ISSUE TRANSCENDS BANKING SECTOR, OF COURSE, AND HAS SERIOUS IMPLICATIONS FOR ENTIRE FOREIGN INVESTMENT CLIMATE. NEUBERT SAYS ALL OTHER JOINT-VENTURE BANKS WILL TAKE SIMILAR ACTION, AT LEAST IN PART BECAUSE OF STEPS HE HAS TAKEN IN ADVISING THEM OF HIS SITUATION. SINCE NONE OF THEM ARE AT STAGE OF PREPARATIONS WHERE CONSIDERATION OF CAPITAL TRANSFERS IS IMMINENT, ISSUE IS THEORETICAL ON THEIR PART. KEY POINT IS THAT ANY FOREIGN FIRM SERIOUSLY CONSIDERING MAKING ITS MOVE IN NEAR FUTURE WILL HOLD OFF UNTIL ISSUE OF RATE AT WHICH CAPITAL ENTERS COUNTRY - AND CLOSELY RELATED QUESTION OF RATE AT WHICH PROFITS ARE TRANSFERRED - IS SETTLED.

6. CHARGE INFORMED NEUBERT THAT THIS PROBLEM HAS BEEN CALLED TO ATTENTION OF AMIN ON SEVERAL OCCASIONS IN PAST, AND PM HEGAZY HAS ASKED FOR A REPORT ON SUBJECT (REFTEL). VISIT OF UNDERSEC ROBINSON LATER THIS MONTH WILL PROVIDE ANOTHER OPPORTUNITY TO RAISE MATTER AT HIGHEST LEVEL. IT IS POSSIBLE THAT DAVID ROCKEFELLER MAY CONTACT UNDERSEC ON THIS MATTER. NEUBERT MAY ALSO ADVISE ROCKEFELLER TO SEND LETTER TO PRESIDENT SADAT ON THIS PROBLEM.
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